

Message Text

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ACTION EA-14

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SUBJ: ASAHAN PROJECT

REF: TOKYO 11503

SUMMARY: LATEST INDONESIA-JAPAN TALKS ON ASAHAN PROJECT PRODUCED QTE BASIC AGREEMENT UNQTE, BUT IMPORTANT QUESTIONS REMAIN TO BE RESOLVED. END SUMMARY.

1. LATEST ROUND OF TALKS BEGINNING DECEMBER 7 BETWEEN J*PANESE FIRMS LED BY SUMITOMO CHEMICAL AND GOI DELEGATION HEADED BY FOREIGN INVESTMENT COUNCIL VICE CHAIRMAN SUHUDO RESULT*D IN QTE PROVISIONAL SIGNING OF BASI* AGREEMENT U QTE ON DECEMBER 18, ACCORDING TO SUMITOMO OFFICIAL. THIS OFFICIAL TOLD E*BASSY*DECEMBER 20 TH*T AGR*EMENT CALLS FOR CONST*UCTION OF ALUMI*UM SME*TING PLANT WITH INIT*AL ANNUAL PRODUCTION OF 225,000 TONS AND ULTIMATE PRO*DUCTION OF 360,000 TONS*. LICENSE PERIOD FOR PLANT WILL BE THIRTY YEARS. HYDROELECTRIC POWER STATION WITH SUSTAINED OUTPUT OF 430,000 KW AND PEAK OUTPUT OF 510,000 KW WILL ALSO BE CONSTRUCT-
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ED. (SIZES OF SMELTING PLANT AND POWER STATION REPORTED REFTL

SOMEWHAT DIFFERENT.) ADDITIONAL NEEDED POWER WILL BE SUPPLIED BY TWO ADDITIONAL POWER PLANTS CONTEMPLATED UNDER OVERALL PLAN. HOWEVER, ACCORDING TO SUMITOMO OFFICIAL, AGREEMENT NOT YET REACHED ON LENGTH OF LICENSE PERIOD (PERIOD OF FOREIGN OWNERSHIP) OF POWER PLANT; THIS IS A QTE PENDING PROBLEM UNQTE. FURTHER, PROPOSED EXPANSION OF FACILITIES WOULD BE DISCUSSED AT FUTURE TALKS. SUMITOMO SPOKESMAN POINTED OUT THAT NO CONSTRUCTION COSTS HAD BEEN PUBLICIZED AFTER SIGNING AS THEY ARE QTE CHANGEABLE FIGURES UNQTE (SEE REFTEL PARA 1A). GOI WILL AFFORD MAXIMUM POSSIBLE PREFERENTIAL TREATMENT TO THE PROJECT IN ACCORDANCE WITH EXISTING GOI LEGISLATION, HE SAID. JAPANESE CONSORTIUM WILL NOW DISCUSS WITH GOJ TERMS OF LOANS WHICH CONSORTIUM HOPES GOJ WILL EXTEND, BUT THE CONSORTIUM HAS NO IDEA WHEN SUCH TALKS WILL REACH A CONCLUSION, HE SAID. ONCE AGREEMENT HAS BEEN REACHED, THE CONSORTIUM WILL EXCHANGE OFFICIAL NOTES WITH THE GOI.

2. ON DECEMBER 21, TAKASHIMA, ACTING HEAD, SECOND SOUTEAST ASIA DIVISION, OFNOFF, PROVIDED THE FOLLOWING VERSION: BASIC AGREEMENT HAS BEEN REACHED BY TWO SIDES. NEXT STEP WILL BE FOR THE INDONESIAN DELEGATION TO OBTAIN APPROVAL OF GOI, AND FOR LEADER OF JAPANESE SIDE TO OBTAIN APPROVAL OF OTHER INTERESTED COMPANIES. MAIN POINT RESOLVED AT THIS MEETING, SAID TAKASHIMA, WAS PERIOD OF TAKEOVER OR LICENSE PERIOD OF THE FACILITIES. IN THE CASE OF THE SMELTER, INITIAL LICENSE PERIOD IS THIRTY YEARS. IF, HOWEVER, WITHIN THE FIRST FIFTEEN YEARS OF THAT PERIOD CONSORTIUM ENLARGES THE SMELTER'S ANNUAL CAPACITY TO 360,000 TONS, LICENSE PERIOD WILL BE THIRTY YEARS FROM THAT TIME. THUS, LICENSE PERIOD MAY BE AS LONG AS 45 YEARS. IN THE CASE OF THE POWER PLANT, SAID TAKASHIMA, LICENSE PERIOD OF THIRTY YEARS WAS AGREED TO. WHETHER THE GOJ WILL PROVIDE FINIANCING FOR THE PROJECT HAS NOT YET BEEN DECIDED, HE CONTINUED. GOJ FINANCIAL INSTITUTIONS HAVE DESCRIPTIONS OF THE PROJECT, BUT NO FIRM COST DATA YET. CONSORTIUM IS NOW WORKING OUT COST DATA; ONCE GOJ HAS RECIEVED THESE, IT WILL STUDY THE CONSORTIUM'S REQUEST, HE SAID.

3. IN AN EARLIER CONVERSATION DECEMBER 18, UCHIDA, OFFICER IN CHARGE OF INDONESIAN AFFAIRS, FIRST ECONOMIC COOPERATION DIVISION, FONOFF, EXPLAINED HIS UNDERSTANDING THAT THE SMELTER WOULD BE PROFITABLE AND THUS NOT REQUIRE GOJ FINANCING. OTHER HAND, LIMITED OFFICIAL USE

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POWER PLANT WILL REQUIRE FINANCING, HE SAID* HE UNDERSTANDS AMERICAN FIRMS ARE INTERESTED IN*PARTICIPATING IN SMELTER, BUT HE IS NOT SURE WHETHER THEY WISH TO PARTICIPATE IN POWER PLANT. IF THEY DO, WHAT KIND OF FINANCING WILL THEY BE ABLE TO OBTAIN? THESE ARE TYPES OF QUESTIONS FONOFF WILL BE CONSIDERING WHEN STUDYING CONSORTIUM'S REQUEST, HE SAID. SHOESMITH

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